

Report of Robert L. Bailes, CPA/ABV/CFF

Billy Walkup Matter





Bailes & Co., P.C.

May 5, 2014

Mr. Eric Marye
2619 Hibernia
Dallas, Texas 75204

Re: Billy Walkup

Dear Mr. Marye:

At your request, I have prepared the following report concerning the lost earning capacity of Mr. Walkup in the above referenced litigation utilizing the report of Carl E. Hansen as a basis for earning capacity. This report is based on information reviewed as of the date of the report. I reserve the right to modify any opinions asserted based on information that might subsequently be received.

Information Relied Upon

I relied upon the following information in making my computations and arriving at my opinions in the case:

- Report of Dr. Carl E. Hansen dated April 23, 2014,
- Income tax returns of Billy & Darla Walkup for the years 2009 – 2013,
- *The Livingston Survey: December 2013*, Federal Reserve Bank of Philadelphia,
- *Survey of Professional Forecasters: First Quarter 2014*, Federal Reserve Bank of Philadelphia and
- Economic Research Federal Reserve Bank of St. Louis located at <http://research.stlouisfed.org/fred2/>.

Opinion As to Lost Income

Damages Time Frame

I have computed the net present value of the earning capacity of Mr. Walkup from April 2012 through age 66 (August 6, 2041). The computations indicate the addition for each year as well as the cumulative amount as of the end of each year. If it is determined the damage period is less than the total years presented, one can look at the cumulative amount for the year deemed applicable to determine the net present value of the lost earning capacity as of that year-end. I am not opining as to the appropriate damage period.

Inflation Rate

According to the *Livingston Survey: December 2013* and the *Survey of Professional Forecasters: First Quarter 2014* both published by the Federal Reserve Bank of Philadelphia, for the next ten years the consumer price index is expected to rise at annual rate of 2.3%. Earning potential was adjusted annually to reflect a 2.3% increase for inflation. No other additions were made to earning potential in the computations.

Discount Rate

All future amounts were brought to present value using the yield of 30-year treasury securities, which is 3.41% as of the date of this report. This yield reflects the risk-free yield in the open market related to long-term cash flow streams with a 30-year time horizon.

Lost Earning Capacity

Based on Dr. Hansen's report, Mr. Walkup is fully disabled and not able to work.

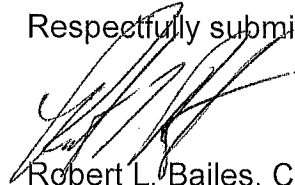
The following table sets forth the after-tax net present value of Mr. Walkup's lost earning capacity using \$9/hour as the earning capacity. It is my understanding Mr. Walkup's hourly pay rate at the date of the accident was \$9/hour.

Date	Pre-Injury Earning Capacity	Post-Injury Earning Capacity	Reduction In Earning Capacity	Income Tax @ 5%	After Tax Reduction In Earning Capacity	Years In Past/Future	10-Year Treasury Yield	Net Present Value Factor	Net Present Value	Cumulative Net Present Value
12/31/2012	\$ 14,040	\$ -	\$ 14,040	\$ 702	\$ 13,338	-	3.4100%	1.0000	\$ 13,338	\$ 13,338
12/31/2013	18,720	-	18,720	936	17,784	-	3.4100%	1.0000	17,784	31,122
12/31/2014	18,720	-	18,720	936	17,784	-	3.4100%	1.0000	17,784	48,906
12/31/2015	19,151	-	19,151	958	18,193	1	3.4100%	0.9670	17,593	66,499
12/31/2016	19,591	-	19,591	980	18,611	2	3.4100%	0.9351	17,404	83,903
12/31/2017	20,042	-	20,042	1,002	19,040	3	3.4100%	0.9043	17,218	101,121
12/31/2018	20,503	-	20,503	1,025	19,478	4	3.4100%	0.8745	17,033	118,154
12/31/2019	20,974	-	20,974	1,049	19,925	5	3.4100%	0.8456	16,849	135,003
12/31/2020	21,457	-	21,457	1,073	20,384	6	3.4100%	0.8178	16,669	151,672
12/31/2021	21,950	-	21,950	1,098	20,852	7	3.4100%	0.7908	16,490	168,162
12/31/2022	22,455	-	22,455	1,123	21,332	8	3.4100%	0.7647	16,313	184,475
12/31/2023	22,971	-	22,971	1,149	21,822	9	3.4100%	0.7395	16,137	200,612
12/31/2024	23,500	-	23,500	1,175	22,325	10	3.4100%	0.7151	15,965	216,577
12/31/2025	24,040	-	24,040	1,202	22,838	11	3.4100%	0.6915	15,793	232,370
12/31/2026	24,593	-	24,593	1,230	23,363	12	3.4100%	0.6687	15,623	247,993
12/31/2027	25,159	-	25,159	1,258	23,901	13	3.4100%	0.6467	15,456	263,449
12/31/2028	25,737	-	25,737	1,287	24,450	14	3.4100%	0.6254	15,290	278,739
12/31/2029	26,329	-	26,329	1,316	25,013	15	3.4100%	0.6047	15,126	293,865
12/31/2030	26,935	-	26,935	1,347	25,588	16	3.4100%	0.5848	14,964	308,829
12/31/2031	27,554	-	27,554	1,378	26,176	17	3.4100%	0.5655	14,803	323,632
12/31/2032	28,188	-	28,188	1,409	26,779	18	3.4100%	0.5469	14,644	338,276
12/31/2033	28,837	-	28,837	1,442	27,395	19	3.4100%	0.5288	14,487	352,763
12/31/2034	29,500	-	29,500	1,475	28,025	20	3.4100%	0.5114	14,332	367,095
12/31/2035	30,178	-	30,178	1,509	28,669	21	3.4100%	0.4945	14,177	381,272
12/31/2036	30,872	-	30,872	1,544	29,328	22	3.4100%	0.4782	14,025	395,297
12/31/2037	31,582	-	31,582	1,579	30,003	23	3.4100%	0.4624	13,875	409,172
12/31/2038	32,309	-	32,309	1,615	30,694	24	3.4100%	0.4472	13,726	422,898
12/31/2039	33,052	-	33,052	1,653	31,399	25	3.4100%	0.4325	13,579	436,477
12/31/2040	33,812	-	33,812	1,691	32,121	26	3.4100%	0.4182	13,433	449,910
12/31/2041	20,177	-	20,177	1,009	19,168	27	3.4100%	0.4044	7,752	457,662

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This report is based on the information available to me as of its date. If additional information becomes available that causes the assumptions to change, I will supplement or amend this report accordingly.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'R. Bailes', is written over the typed name.

Robert L. Bailes, CPA/ABV/CFF

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CURRICULUM VITAE ROBERT L. BAILES, CPA/ABV

CURRENT EMPLOYMENT:

Bailes & Co., P.C.
1357 Dominion Plaza
Tyler, Texas 75703
(903) 561-5859

CERTIFICATIONS / ACCREDITATIONS:

Certified Public Accountant (CPA)
Accredited in Business Valuation by American Institute of CPAs (ABV)

UNDERGRADUATE EDUCATION:

Baylor University
Bachelor of Business Administration - Accounting
1976

GRADUATE EDUCATION:

Baylor University
Master of Professional Accountancy
1978

EXPERIENCE:

Expert Witness / Litigation Support
Business Valuation – Partial List:

State District Court - Smith County, Texas, County Court at Law - Smith County, Texas, Federal District Court - Eastern District of Texas, County Court at Law - Gregg County, Texas, County Court at Law - Rusk County, Texas, County Court at Law - Anderson County, Texas, State District Court - Kaufman County, Texas, United States Bankruptcy Court - Eastern District of Texas, United States Bankruptcy Court - Eastern District of Louisiana, State District Court - Cherokee County, Texas, State District Court - Dallas County, Texas, State District Court - Lamar County, Texas, State District Court - Red River County, Texas, State District Court - Collin County, Texas, State District Court - Guadalupe County, Texas, State District Court - Hays County, Texas, State District Court - Kimble County, Texas, State District Court - Tarrant County, Texas, State District Court - Denton

County, Texas, State District Court - Gregg County, Texas, State District Court - Leon County, Texas, State District Court - Harrison County, Texas, State District Court - Shelby County, Texas, State District Court - Tarrant County, Texas, State District Court - Bexar County, Texas, State District Court - Hopkins County, Texas, State District Court - McLennan County, Texas, State District Court - Grayson County, Texas.

Damage Analysis - Partial List:

State District Court - Dallas County, Texas, State District Court - Travis County, Texas, Federal District Court - Eastern District of Texas, District Court - Smith County, Texas, State District Court - Harris County, Texas, State District Court - Henderson County, Texas, State District Court - Morris County, Texas, State District Court - Cherokee County, Texas, State District Court - Van Zandt County, Texas, State District Court - Gregg County, Texas, Federal District Court - Northern District of Texas, Federal District Court - Southern District of Texas, County Court at Law - Smith County, Texas, State District Court - Dallas County, Texas.

Tracing - Partial List:

County Court at Law - Smith County, Texas, State District Court - Smith County, Texas, State District Court - Van Zandt County, Texas, State District Court - Anderson County, Texas, County Court at Law - Rusk County, Texas, Federal District Court - Northern District of Texas, State District Court - Dallas County, State District Court - Kaufman County, Texas, State District Court - Wood County, Texas, State District Court - Lamar County, Texas, State District Court - Gregg County, Texas, State District Court - Morris County, Texas.

Financial Fraud - Partial List:

Federal District Court - Eastern District of Texas, State District Court - Smith County, Texas, State District Court - Dallas County, Texas.

Loss Determination - Federal Sentencing Guidelines:

Federal District Court - Eastern District of Texas.

Accounting Malpractice:

Federal District Court - Eastern District of Texas, State District Court - Gregg County, Texas, State District Court - Dallas County, Texas.

Tax Fraud:

Federal District Court - Eastern District of Texas.

Arson:

Federal District Court - Eastern District of Texas, County Court at Law, Gregg County, Texas.